

Challenges Faced by Lenders in Providing Reverse Mortgage Loan: A Comparative Analysis

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ABSTRACT

Population aging is a common phenomenon worldwide. The Senior citizen population is generally termed as 'Asset Rich, Cash Poor' because they have huge investment in form of residential houses on their names, but lacks liquid resources for their daily requirements. Reverse Mortgage Loan is a financial product which helps senior citizens to convert the home equity into cash so that they can lead their post retirement life respectfully. The senior citizen borrowers need not to repay the loan during their lifetime. After the death of the borrower, the legal heirs can repay the loan and take back the property. Otherwise the bank can sell the property, adjust the loan amount along with interest and refund the balance amount to heirs. This product is very much in demand in western countries like USA, UK, etc. Since its introduction in India, its demand is very low. Past studies reveals that several factors like wish to pass on the property to children, lack of awareness among senior citizens etc. are the main reasons of its low demand. The supply side i.e. bank/financial institutions also face challenges in providing this loan. Present study compares the challenges faced by lenders from the state of Punjab and Haryana in providing this loan.

Keywords: Aging, Senior Citizens, Residential House, Retirement, Borrower.

Introduction

Reverse Mortgage Loan is a financial product which can be very useful for senior citizens for funding their retirement. Mostly, senior citizens lack sufficient income to fund their post retirement expenditure. But they have huge investment in residential houses in their name. With the help of Reverse Mortgage loan, they can convert their home equity into cash. Reverse Mortgage Loan is a product where the borrower (a senior citizen) mortgages his/her residential property to the lender and lender pays him the money either in lump sum or in monthly installments. The borrower needs not to repay the loan during his/her lifetime and he/she stays in the house till he/she is alive. After the death of the borrower or his/her spouse, the legal heirs of the borrower can repay the loan along with interest and take back the property. Otherwise the lender can sell the property, recover the accumulated loan amount and refund the balance if any to the legal heirs.

Review of Literature

Srinivasan (2008) stressed on the need of better support system for the aged because of fast changing life style of people and their increasing spending than savings. Apart from this, the study also explained the advantages of Reverse mortgage Loan. The study explored, Reverse mortgage is advantageous to the elderly as there is no need to repay the loan by the borrower during their lifetime, loan payments are tax free and elderly can enjoy the freedom of living in their home. According to the study, the product's demand is increasing in UK, Ireland, USA, Canada and Sweden.

Venkatraman and Mishra (2013) gave the detailed information on the reverse mortgage scheme and banks providing it. This helped in grasping the significance of Reverse Mortgage Scheme as far as India is concerned. According to the study, High transaction cost, risk of moral hazards, emotional

attachment, uncertainty of taxation, vagueness of rules, etc. are some forces affecting the Reverse mortgage. Apart from this, the study also conducted the SWOT analysis of the product and found the strengths, weaknesses, opportunities and threats of the same.

Singh & Garg (2015) gave the theoretical framework of Reverse Mortgage Loan. The study revealed the reasons why the scheme is not in demand in India? The study highlighted the emotional attachment to the house and leading a debt free life as the reasons for less popularity of this product as far as India is concerned. Apart from this, lack of efforts on the part of supply side might be another reason.

Objectives of the Study

The main objectives of the present study are:

- To find out the challenges faced by lenders in providing Reverse Mortgage Loan.
- To comparatively analyse the challenges.

Research Methodology

The present study is based on both primary and secondary data. Secondary data has been used for reviewing the existing literature and has been collected from various published journals, books and official websites on the internet.

The primary data has been collected using the questionnaire method. A structured questionnaire has been prepared to collect information from the bank officials i.e. lenders who provide Reverse Mortgage Loan. A sample of 30 bank officials each from the states Punjab and Haryana has been selected to study the challenges they face in providing Reverse Mortgage Loan and their responses has been compared and analysed using frequency and percentages.

Analysis of Data

Preferences of financial products of senior citizens for the funding retirement

Table 1: Preferences of Financial Products of Senior Citizens for Funding Retirement

Financial Product/ Preference Level	Fixed Deposit	Post office monthly income scheme	Post office time deposit	Monthly Income Plan	National Saving certificate	Senior citizen saving scheme	Reverse Mortgage	Any other
Punjab	Most Preferred	neutral	neutral	Second Preference	neutral	Third preference	Least Preferred	
Haryana	Second Preference	Most Preferred	neutral	neutral	neutral	Third Preference	Least Preferred	

Source: Primary Data

Table 1 shows that reverse mortgage loan is the least preferred financial product among senior citizens for funding retirement in both Punjab and Haryana states.

Awareness Level of the Reverse Mortgage Loan scheme among Senior citizens

Table 2: Awareness Level of Reverse Mortgage Loan scheme among Senior citizens

Response	Frequency		Percentage	
	Punjab	Haryana	Punjab	Haryana
Highly unaware	2	2	6.67	6.67
Unaware	28	27	93.33	90
Don't know	-	-	-	-
Aware	-	1	-	3.33
Highly Aware	-	-	-	-
Total	30	30	100	100

Source: Primary Data

The survey data depicted that in both the states, the awareness level of senior citizens about reverse mortgage loan is pretty low. 93.33 per cent of the survey respondents in Punjab and 90 percent of respondents in Haryana perceive that senior citizens are unaware of this product.

The Bank providing any awareness programme to senior citizens on the Reverse Mortgage scheme

Table 3: Bank Providing any Awareness Programme to Senior Citizens on the Reverse Mortgage Scheme

State	Response	Frequency	Percentage
Punjab	Yes	29	96.7
	No	1	3.3
Haryana	Yes	30	100
	No	0	-

Source: Primary Data

In both the states, surveyed banks are providing awareness programmes to senior citizens on the Reverse Mortgage scheme. In Haryana, its frequency is a bit high with 100 per cent surveyed banks providing awareness programmes as compared to 96.7 per cent in Punjab.

Kind of Promotional activities used by banks to promote Reverse Mortgage

Table 4: Kind of Promotional activities used by banks to promote Reverse Mortgage

Response	Frequency		Percentage	
	Punjab	Haryana	Punjab	Haryana
Print media	8	6	26.7	20
Electronic Media	15	15	50	50
Brochures	3	6	10	20
Leaflets	-	-	-	-
Hoardings	3	3	10	10
Any other	-	-	-	-
No promotional activities	1	-	3.3	-
Total	30	30	100	100

Source: Primary Data

Most banks in Punjab and Haryana used electronic media with 50 per cent frequency for promotion of this product. 26.7 per cent banks in Punjab and 20 per cent banks in Haryana used print media to promote this product. 10 per cent banks used brochures and hoardings in Punjab while in Haryana their frequency is 20 per cent and 10 per cent respectively.

The Loan to Value Ratio

Table 5: Loan to Value ratio in Selected Banks

Bank Name	LVR in Punjab and Haryana (in percent)
State Bank of India	80-90
Punjab National Bank	80
Indian Bank	80
Canara Bank	80
Bank of Baroda	60

Source: Primary Data

Kind of Interest the majority of customers prefer on the Reverse Mortgage Loan

Table 6: Kind of Interest the majority of customers prefer on the Reverse Mortgage Loan

Response	Frequency		Percentage	
	Punjab	Haryana	Punjab	Haryana
Fixed	1	0	3.3	-
Floating	29	30	96.7	100
Total	30	30	100	100

Source: Primary Data

Floating rate of interest is preferred by most of the customers in both the states according to the survey. In Haryana 100 per cent respondents perceived that the customers preferred the floating rate of interest while in Punjab 96.7 respondents perceived the same.

Mode of Borrowing Preferred by Most of the Customers

Table 7: Mode of borrowing preferred by most of the customers'

Response	Frequency		Percentage	
	Punjab	Haryana	Punjab	Haryana
Lump sum	11	12	36.7	40
Monthly payments	15	15	50	50
Combination of both	4	3	13.3	10
Total	30	30	100	100

Source: Primary Data

Most respondents in both the states perceived that the customers preferred monthly payments as the mode of borrowing. Second most preferred mode of borrowing is Lump sum payments and least preferred mode of borrowing is combination of both.

Main Obstacles of taking Reverse Mortgage Loan for Old People

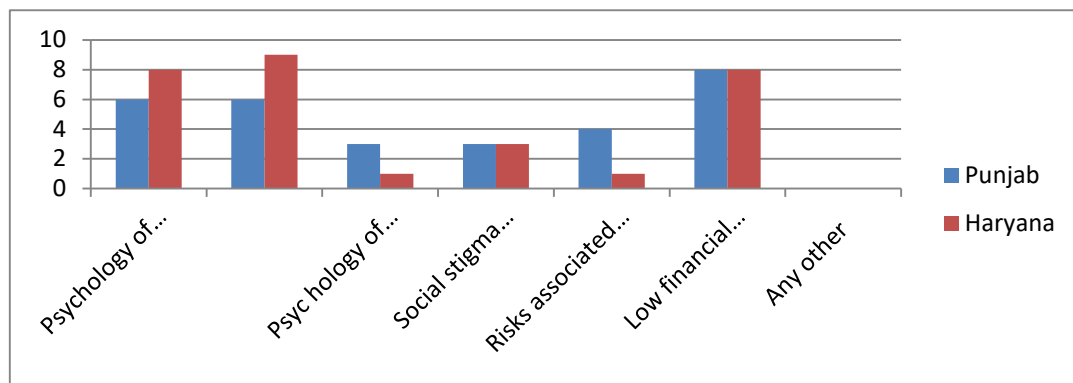
Table 8: Main Obstacles of Taking Reverse Mortgage Loan for Old People

Obstacles for old people	Punjab				Haryana			
	Yes		No		Yes		No	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Lack of awareness	25	83.3	5	16.7	26	86.7	4	13.3
Lack of trust on bank	2	6.7	28	93.3	2	6.7	28	93.3
Absence of family support	24	80	6	20	27	90	3	10
Fear of society rejection	9	30	21	70	10	33.3	20	66.7
Wish to pass on home to children	26	86.7	4	13.3	27	90	3	10
Hectic documentation process	23	76.7	7	23.3	22	73.3	8	26.7

Source: Primary Data

Table 8 shows that the most important obstacle of taking reverse mortgage loan for senior citizens in both Punjab and Haryana states is wish to pass on home to children with 86.7 per cent and 90 per cent respondents respectively perceiving this. Absence of family support is equally important obstacle (90 per cent respondents) in Haryana. In Punjab, other obstacles are lack of awareness, absence of family support and hectic documentation process in the order of importance. On the other hand, in Haryana lack of awareness and hectic documentation process are other important obstacles. Fear of society rejection and lack of trust on bank are least important obstacles in both the states.

Main challenges banks faced to properly implement Reverse Mortgage Loan Scheme



Source: Primary Data

Figure 1: Main challenges banks faced to properly implement Reverse Mortgage Loan Scheme

As shown in figure 1.2, lack of awareness is the most important challenge for bankers in Haryana while in Punjab it is Low financial literacy among senior citizens. In Haryana the second challenge that bankers faced is low financial literacy among senior citizens and Psychology of senior citizens. In Punjab the second challenge is Lack of awareness and Psychology of senior citizens. Social stigma about the loan at old age is equally important challenge in both the states.

Suggestions

The bank officials of both the states gave the following suggestions for improving the Reverse mortgage loan scheme:

- There is a need to run special awareness campaigns to create the awareness of the product among senior citizens.
- Special counseling is required to be provided to the senior citizens to tackle their psychology about the loan at this age, social stigma about the loan and lack of trust on the banks.
- As the financial literacy among senior citizens is also very low, there is a need to run financial literacy programmes for senior citizens.
- There is a need to modify the product to make it more attractive to the target segment.
- Special training should be provided to the bank officials to enable them to deal the senior citizens with more patience.
- Interest rates also need to be subsidized.

Findings and Conclusion

The study found that the bank officials dealing with Reverse mortgage loan in both the states of Punjab and Haryana perceive that this product is least preferred financial product among senior citizens as far as the retirement planning is concerned. The major challenges among bankers in implementing this product are psychology of senior citizens, lack of awareness, low financial literacy among senior citizens, society pressure etc. Bankers suggest creating awareness among senior citizens, counseling them and modifying the product as per the needs of senior citizens to make it more attractive to the target segment. Apart from this, subsidized interest rates and training to bank officials can also help boosting its demand.

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